July 26, 2013

BY ELECTRONIC FILING

Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: *Connect America Fund, High-Cost Universal Service Support,*
WC Docket Nos. 10-90, 05-337

Dear Ms. Dortch:

USTelecom hereby responds to the July 9, 2013, Letter of Alaska Communications Systems ("ACS") in the above-captioned proceedings concerning the Connect America Fund ("CAF") Phase II program.[1] In the July 9 Letter, ACS proposes several Alaska-specific adjustments to the Connect America Cost Model ("CAM") under development by the Wireline Competition Bureau.

As a threshold matter, USTelecom believes that model-based support is the optimal mechanism for determining high-cost support for all price cap companies, including those serving insular areas. We are confident that such an approach will yield the appropriate amount of support for insular providers, and provide a consistency that is especially important in the face of a budget that constrains support to all carriers. We also believe that such providers can and should work to have any unique circumstances addressed in the model, much as ACS is seeking to do with the proposal in its July 9 Letter.

USTelecom does not support a "hold-harmless" approach whereby certain insular carriers receive model-based support and others continue to receive frozen support. Such an approach raises the concern that some support levels would not be fully justified by the cost characteristics of the recipient carrier's service area. Moreover, to the extent such an approach is taken within the Commission's budget for price cap areas, it would unfairly divert much-needed broadband funding from customers living in the rural areas served by price-cap carriers receiving model-based support. If the Commission adopts a hold-harmless approach, the frozen support provided to any insular company in excess of its CAM-derived model-based result should not be counted within the current budget for areas served by price cap carriers.

Turning to ACS's proposal, USTelecom generally supports adjustments to the CAM to better reflect the special characteristics of particular insular areas. The Commission directed the Bureau

[1] Letter to Marlene Dortch, FCC Secretary, from Leonard A. Steinberg of ACS, in WC Docket Nos. 10-90, 05-337, filed July 9, 2013 ("July 9 Letter").

in developing the CAM to consider the unique circumstances faced by price cap carriers serving outside the contiguous United States.[2] USTelecom agrees with ACS that the CAM currently does not fully reflect Alaska-specific cost inputs, and produces an unreasonably low amount of support for the ACS price cap LECs, which provide service only in Alaska. ACS has documented the unique cost-causative characteristics of deploying and operating networks in Alaska, and identified a number of specific respects in which the CAM falls short. Adjustments to the areas of the CAM that ACS proposes to modify, together with an extension of the CAF Phase II build-out period, are necessary to bring the results of the CAM more closely in line with a sufficient level of support to provide broadband to locations in its service territory that qualify for support under CAF Phase II.

Applying Alaska-Specific Plant-Mix Values Would Be Appropriate

The Bureau has decided that the CAM should incorporate a matrix of three infrastructure types for wiring (aerial, buried and underground) across three density zones (urban, suburban and rural).[3] National average plant mix percentages will be used only where state-specific figures are unavailable.[4]

While USTelecom does not comment on the specific figures incorporated by ACS in its Alaska plant mix matrix, it agrees that the Bureau should incorporate state-specific figures.

The CAM Should Reflect Alaska-Specific Soil Type

The CAM aggregates the many types of soil and ground conditions present across the nation into four categories: normal, hard rock, soft rock, and water. The CAM calculates facility construction costs based on the national average cost of deploying facilities in each of these four soil type categories. ACS presents evidence that the "hard rock" category best captures the costs of deploying network facilities in ACS's service areas due to the unique geology, topography and climate of Alaska, even in areas that are not composed of hard rock *per se*.

---

2 *See Connect America Fund*, WC Docket No. 10-90, A *National Broadband Plan for Our Future*, GN Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, H*igh-Cost Universal Service Support*, WC Docket No. 05-337, *Developing an Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, F*ederal-State Joint Board on Universal Service*, CC Docket No. 96- 45, *Lifeline and Link-Up*, WC Docket No. 03-109, *Universal Service – Mobility Fund*, WT Docket No. 10-208, Report and Order and FNPRM, 26 FCC Rcd. 17663 (2011), *pets. for review pending, Direct Commc'ns Cedar Valley, LLC v. FCC*, No. 11-9581 (10th Cir. filed Dec. 18, 2011) (*USF/ICC Transformation Order)* ¶193.

3 *Connect America Fund; High-Cost Universal Service Support,* Report & Order, WC Docket Nos. 10-90, 05-337, DA 13-807, ¶64 (Wir. Comp. Bur., Apr. 22, 2013) ("CAM Framework Order").

4 CAM Framework Order ¶ 64.

As with plant mix, USTelecom takes no position on the precise soil mix in Alaska, but supports ACS's request to set the model's soil type for Alaska so as to best represent the cost per foot of deploying fiber where ACS provides service. Such a change would be consistent with the Commission's goal of modeling forward-looking costs at a granular, geographically-specific level.[5]

An Increase in the Baseline CapEx Figures for Alaska Is Warranted

ACS states that the CapEx values contained in the CAM substantially understate the forward-looking costs of purchasing and deploying broadband facilities in Alaska. ACS states that it lacks the purchasing power of price cap carriers operating in the lower 48 states, and ACS incurs higher costs to purchase and transport equipment to deployment sites than carriers in the lower 48 states.[6]

USTelecom has no objection to implementation of this change either through an increase in the regional adjustment factor for Alaska or by creating an Alaska-specific set of CapEx inputs.

ACS Should Be Classified As a "Small" Carrier

ACS presents evidence that it barely qualifies as a "medium" sized price cap carrier today, and rationally expects to fall below the 100,000-line threshold between "small" and "medium" companies in late 2015 or early 2016, well before the completion of the CAF Phase II build-out.[7] Based on this representation, USTelecom supports ACS's proposal that it be classified as "small" for purposes of the CAM. The CAM should reflect forward-looking costs and cost-causative characteristics, and ACS's size is significant for the CAM accurately to estimate the proper level of OpEx ACS will incur.

The CAM Should Incorporate Forward-Looking Costs for Middle-Mile Transport Via Alaska Submarine Cable System

Under the CAM's network design, customer locations are linked via terrestrial fiber transport to the nearest Internet access point ("IAP") in the region. The CAM also assumes that price cap carriers serving adjacent territories can share middle mile facilities. ACS must have access to a submarine cable transport system between Alaska and the lower 48 states to reach the nearest IAP, and states that it is cost-prohibitive to obtain access to the only other existing submarine cable facilities, which are owned by its direct retail broadband competitor.[8]

The CAM currently contains no cost input for the forward-looking costs associated with submarine cable facilities necessary to link Alaska to the closest IAP which is located on the continental U.S. ACS has produced forward-looking cost estimates for linking its local facilities

---

5 *USF-ICC Transformation Order*, ¶188.

6 *Id.*, p. 7.

7 *Id.*, p. 9.

8 July 9 Letter, pp. 10, 14.

to the Internet, although we cannot comment on the methodology. USTelecom supports incorporation in the CAM the forward-looking costs of linking Alaska to the closest IAP via submarine cable system, using a reasonable allocation factor.

It Is Appropriate To Allow Ten Years for ACS to Complete Construction Under CAF Phase II

Finally, ACS requests that the Bureau permit ACS to complete its required CAF Phase II build-out in ten years rather than five.[9] In support of this proposal, ACS offers evidence that it faces a uniquely short construction season in Alaska, and its ability to accelerate broadband deployment is likely to be hampered by a shortage of workers with the needed skills and expertise to deploy plant in the Alaska terrain.

ACS proposes that the Bureau provide annual support over the ten-year period that reflects the net present value of the support amount that would have been produced by the CAM over five years, and additional support in years 6 through 10 to recover the costs associated with additional operating expenses resulting from the build-out.[10] With respect to the build-out requirement, ACS proposes that 4/1Mbps broadband service could be provided to at least 40 percent of its CAF Phase II supported locations by the end of year four, 80 percent by the end of year eight, and 100 percent by the end of year ten, with additional deployment milestones for 6/1.5 Mbps broadband to be determined.[11]

USTelecom supports an extended build-out period for ACS, consistent with the milestones ACS proposes. ACS has documented that unique conditions hinder broadband deployment in Alaska. Rather than discourage ACS from accepting CAF Phase II funding, the Bureau should make an exception to the five-year CAF Phase II implementation schedule in Alaska.

Adopting changes to the areas of the CAM highlighted by ACS will help the Bureau resolve a number of outstanding issues in the record, and ensure that the final version of the model will best serve the Commission's broadband deployment goals.

---

9 *Id.*, p. 16.

10 July 9 Letter, p. 17.

11 *Id.*, p. 18.

Please direct any questions concerning these matters to the undersigned.

Sincerely,

Jonathan Banks
Senior Vice President, Law & Policy

cc: Carol Mattey
Steve Rosenberg
Amy Bender
Alex Minard
Katie King
Danya Ayoubi
Talmage Cox
Mike Jacobs
Ted Burmeister